

Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-25 EA-11 ADP-00 AID-20 CIAE-00 COME-00

EB-11 FRB-02 INR-10 NSAE-00 RSC-01 XMB-07 OPIC-12

CIEP-02 OMB-01 L-03 RSR-01 ARA-11 /118 W

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R 051743Z JUL 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2388

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY MADRID

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 07729

DEPARTMENT PASS TREASURY

E.O. 11652: XGDS

TAGS: EFIN, CI, UK

SUBJECT: PARIS CLUB

REF: STATE 130955

1. TREASURY REPRESENTATIVE CALLED ON RONALD JONES, ASSISTANT SECRETARY, U.K. TREASURY WHO CHAIRS THE U.K. INTER-MINISTRY GROUP ON CHILE TO MAKE POINTS IN REFTEL. JONES, WHO EXPRESSED APPRECIATION FOR BEING KEPT INFORMED OF U.S. POSITION, SAID THAT U.K. VIEWS CURRENT SITUATION AS FOLLOWS:

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2. CHILEAN DEBT SERVICE CAPACITY IS WORSE THAN IT WAS LAST YEAR. CHILEAN WILL OR DESIRE TO IMPROVE ITS OWN SITUATION ALSO SEEMS AS DEFECTIVE AS IT WAS LAST YEAR. IN TERMS OF CHILE'S FOREIGN EXCHANGE POSITION, THE U.K. CAN SEE A CASE FOR RESCHEDULING, BUT U., HAS NO REASON TO BELIEVE THAT A RESCHEDULING WOULD IMPROVE LONG-TERM CHILEAN POTENTIAL TO REPAY FOREIGN DEBT.

3. BASIC U.K. POSITION WOULD BE TO ASK CHILEANS WHAT THEY HAVE DONE TO FULFILL APRIL 1972 AGREEMENT; TO ARRIVE AT AGREEMENTS ON COMPENSATION AND NATIONALIZATION; AND TO MEET BILATERAL DEBT COMMITMENTS WHICH U.K. CHARACTERIZES AS "VERY POOR PERFORMANCE."

4. U.K. INITIAL POSITION WOULD BE SIMILAR TO THAT IN PARAGRAPH 1A OF REFTTEL. IN RETURN FOR NEGOTIATIONS ON 1973 MATURITIES, THE U.K. WOULD EXPECT THAT CHILEANS WOULD GIVE CREDITORS UNDERTAKINGS. U.K. ENVISAGES AN INITIAL 70-30 BARGAINING POSITION, BUT WOULD CONSIDER EVENTUAL COMPROMISE MIGHT GET DOWN TO 15 OR 10 PERCENT PAYMENT, 5 PERCENT OFFER IS DERISORY.

5. IN EVENT THAT CHILEANS REFUSE TO GIVE SATISFACTORY UNDERTAKINGS, U.K. SEES CHOICE AS BETWEEN DEFAULT OR CREDITORS GETTING WHAT THEY CAN. FACED WITH THIS, U.K. WOULD FALL BACK TO POSITION OF TAKING WHAT IT COULD GET, EXPRESSING DISSATISFACTION WITH CHILEAN ABILITY TO HANDLE COMMITMENTS AND LIVE UP TO AGREEMENTS.

6. EVEN IF CHILE WERE TO ADOPT HARSH DOMESTIC PROGRAM, U.K. DOESN'T BELIEVE THIS WOULD MAKE ANY DIFFERENCE DURING THE NEXT SIX MONTHS. IT WOULD PROBABLY RESULT IN POLITICAL CHAOS. AS U.K. SEES IT, ONE OF MAJOR PROBLEMS IS THAT CREDITORS HAVE NO EFFECTIVE

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 07729

LEVERAGE OVER CHILEANS. THEREFORE, U.K. CONSIDERS DOING MINIMUM FOR CHILEANS PROBABLY ADVANTAGEOUS TO LEAVING THEM IN DEFAULT AND SLAMMING THE DOOR IN THEIR FACE. LATIN AMERICAN EXPERTS IN FOREIGN OFFICE REPORTEDLY CONSIDER IT VERY IMPORTANT TO OBTAIN SOME FORM OF LEGAL COMMITMENT OR UNDERTAKING FROM CHILEANS THAT CAN BE USED IN THE FUTURE TO PUT THEM ON THE DEFENSIVE.

7. JONES REPORTS THAT ABOVE U.K. POSITION IS "PRETTY WELL FIXED," BUT COULD BE INFLUENCED BY HARD U.S. VIEWS. IF RESULTS OF US-GOC BILATERAL TALKS ARE VERY BAD THIS COULD HAVE SOME EFFECT ON U.K. POSITION.
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8. U.K. HAD NOT ENVISAGED BREAKING OFF TALKS IF CHILEANS WILL NOT GIVE UNDERTAKINGS, AND HAD HOPED TO SETTLE MATTERS AT THE JULY PARIS CLUB MEETINGS. IN FOLLOW-UP CONVERSATION, JONES SAID U.K. WOULD IN PART BE GUIDED BY VIEWS OF ALL OTHER CREDITORS. ON REFLECTION, U.K. INTEREST IN 73 MATURITIES IS RELATIVELY SMALL, TWELVE MILLION POUNDS. GIVEN STRONG U.S. VIEWS, JONES VOLUNTEERED THAT U.K. MIGHT BE ABLE AGREE TO POSTPONING FINAL DECISION UNTIL LATER IN THE YEAR IF IT MEANT THAT THE CHILEANS COULD BE PRESSURED INTO DOING SOMETHING MORE.

9. JONES LEAVES LONDON ON AN 8:00 PM FLIGHT WEDNESDAY,
JULY 11, IS STAYING AT HOTEL MINISTERE. HE IS WILLING
TO HAVE BREAKFAST WITH ASSISTANT SECRETARY HENNESSY AND
OTHER U.S. OFFICIALS AT HOTEL CRILLON AT 8:00 AM THURSDAY
JULY 12, TO EXPLORE ABOVE POINTS IN MORE DETAIL, PRIOR
TO EC CAUCUS AT 9:30 AM. PLEASE CONFIRM.

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